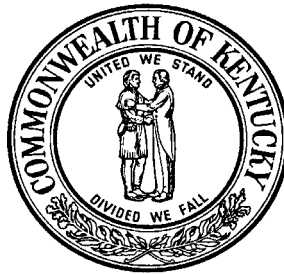


# **LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS CABINET FOR WORKFORCE DEVELOPMENT**

**In Reference to the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Virginia Fox, Secretary, Education Cabinet  
Cabinet for Workforce Development

**MANAGEMENT LETTER**

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Cabinet for Workforce Development to comply with KRS 43.090.

This letter presents the results of the work performed at the Cabinet for Workforce Development, as part of our annual audit of the Commonwealth of Kentucky's financial statements.

In planning and performing our audit of the basic financial statements of the Commonwealth for the year ended June 30, 2004, we considered the Cabinet for Workforce Development's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Cabinet for Workforce Development's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Cabinet for Workforce Development's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



Virginia Fox, Secretary, Education Cabinet  
Cabinet for Workforce Development  
(Continued)

Some findings are Other Matters that we have included in this letter to communicate with management in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Findings and Recommendations (Reportable Conditions, Noncompliance, and Other Matters)
- ◆ Summary Schedule of Prior Year Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Cabinet for Workforce Development's findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at [www.auditor.ky.gov](http://www.auditor.ky.gov).

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

February 28, 2005



CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Virginia Fox, Secretary, Education Cabinet  
Cabinet for Workforce Development

**MANAGEMENT LETTER**

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Cabinet for Workforce Development to comply with KRS 43.090.

This letter presents the results of the work performed at the Cabinet for Workforce Development, as part of our annual Statewide Single Audit of the Commonwealth of Kentucky.

In planning and performing our audit over compliance with requirements applicable to major federal programs, for the year ended June 30, 2004, we considered the Cabinet for Workforce Development's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on compliance with requirements applicable to each major federal program and to report on internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133 and on the Schedule of Expenditure of Federal Awards (SEFA).

We noted certain instances of noncompliance with requirements applicable to major federal programs we considered to be reportable under standards established by OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Cabinet for Workforce Development's ability to administer a major federal program in accordance with the applicable requirements of OMB Circular A-133.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions.

In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.



Virginia Fox, Secretary, Education Cabinet  
Cabinet for Workforce Development  
(Continued)

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Cabinet for Workforce Development's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Some findings are Other Matters that we have included in this letter to communicate with management in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations (Federal Noncompliance, Reportable Conditions, Noncompliance, and Other Matters)
- ◆ Summary Schedule of Prior Year Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Cabinet for Workforce Development's findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at [www.auditor.ky.gov](http://www.auditor.ky.gov).

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 28, 2005

## **LIST OF ABBREVIATIONS/ACRONYMS**

CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CHFS	Cabinet For Health and Family Services
CWD	Cabinet for Workforce Development
CIM	Compaq Insight Manager
COT	Commonwealth's Office for Technology
DES	Department for Employment Services
DOL	Department of Labor
DNS	Domain Name Service
DTR	Department for Training and ReEmployment
DVOP	Disabled Veteran's Outreach Program
DWS	Division for Workforce Services
ETA	Employment and Training Administration
FAC	Finance and Administration Cabinet
FSR	Financial Status Reports
FTP	File Transfer Protocol
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
HTTP	Hyper Text Transfer Protocol
HTTPS	Hyper Text Transfer Protocol Secure Sockets
ICMP	Internet Control Message Protocol
IIS admin	Internet Information Server Administrator
IRC	Internet Relay Chat
IRS	Internal Revenue Service
IT	Information Technology
JV	Journal Voucher
JVC	Journal Voucher Correction
KRS	Kentucky Revised Statutes
KTAP	Kentucky Tuition Assistance Program
LAN	Local Area Network
LSA	Local Security Authority
LWIA	Local Workforce Investment Areas
MARS	Management Administrative Reporting System
NEG	National Emergency Grant
NIS	Network Information Service
NA	Not Applicable
OMB	Office of Management and Budget
OET	Office of Employment and Training
RADMIN	Remote Administrator
R & D	Research and Development
RPC	Remote Procedure Call
SEFA	Schedule of Expenditures of Federal Awards
SMTP	Simple Mail Transfer Protocol
SNMP	Simple Network Management Protocol

**LIST OF ABBREVIATIONS/ACRONYMS**

SSL	Secure Sockets Layer
UI	Unemployment Insurance
UNIX	Uniplexed Information and Computing System
UPPS	Uniform Payroll And Personnel System
W/P	Wagner-Peyser Act
WKU	Western Kentucky University
WIA	Workforce Investment Act
Workforce	Department for Workforce Investment

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

CFDA # Program Title	Expenditures		Provided to Subrecipient
	Cash	Noncash	
<b><u>U.S. Department of Labor</u></b>			
<b>Direct Program:</b>			
17.002 Labor Force Statistics	\$	1,000,144	\$
17.203 Labor Certification for Alien Workers		389,791	
<b>Employment Services Cluster:</b>			
17.207 Employment Service		10,570,861	1,746
17.801 Disabled Veterans' Outreach Program (DVOP)		797,405	
17.804 Local Veterans' Employment Representative Program		1,059,249	
17.225 Unemployment Insurance (Note 2) (Note 3)		563,143,624	34,555
17.245 Trade Adjustment Assistance - Workers (Note 2)		21,569,133	
<b>Workforce Investment Act Cluster:</b>			
17.258 WIA Adult Program (Note 2)		14,659,945	13,776,202
17.259 WIA Youth Activities (Note 2)		13,446,328	12,958,719
17.260 WIA Dislocated Workers (Note 2)		15,229,340	12,902,762
17.263 Youth Opportunity Grants		143,077	129,090
17.267 WIA Incentive Grants - Section 503 Grants to States		1,196,774	1,209,180
<b><u>U.S. Department of Education</u></b>			
<b>Direct Programs:</b>			
84.002 Adult Education - State Grant Program		59,578	46,344
84.048 Vocational Education - Basic Grants to States		12,943,658	10,955,115
84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States (Note 2) (Note 4)		48,392,760	1,100,245
84.128 Rehabilitation Services - Service Projects		178,590	178,590
84.161 Rehabilitation Services - Client Assistance Program		168,402	
84.169 Independent Living - State Grants		355,620	12,046
84.177 Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind		426,696	4,219

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

CFDA # Program Title	Expenditures		Provided to Subrecipient
	Cash	Noncash	
<b><u>U.S. Department of Education (continued)</u></b>			
<b>Direct Programs: (continued)</b>			
84.187 Supported Employment Services for Individuals with Severe Disabilities	483,174		
84.224 Assistive Technology	514,401		342,611
84.243 Tech - Prep Education	1,990,781		1,936,284
84.265 Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	158,936		
84.346 Occupational and Employment Information State Grants	79,706		426
<b><u>U.S. Department of Health and Human Services</u></b>			
<b>Passed Through From Cabinet for Families and Children</b>			
93.558 Temporary Assistance for Needy Families	2,960,457		
<b>Passed Through From Cabinet for Health Services</b>			
93.630 Developmental Disabilities Basic Support and Advocacy Grants	98,296		12,483
93.958 Block Grants for Community Mental Health Services	75,000		
<b>TOTAL CABINET FOR WORKFORCE DEVELOPMENT</b>	<b>\$ 712,091,726</b>	<b>\$</b>	<b>55,600,191</b>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Basis of Presentation** - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Cabinet for Workforce Development (CWD), except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

The accompanying schedule includes cash Federal financial assistance programs. CWD had no noncash federal financial assistance for FY 04.

Clusters of programs are indicated in the schedule by light gray shading.

**Inter-Agency Activity** - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

**Inter-Agency Activity**

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

**Note 2 - Type A Programs**

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 04. CWD had the following cash programs that met the Type A program definition for FY 04, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
<b>17.225</b>	Unemployment Insurance	\$ 563,143,624
<b>17.245</b>	Trade Adjustment Assistance – Workers	21,569,133
<b>Workforce Investment Act Cluster:</b>		
<b>17.258</b>	WIA Adult Program	14,659,945
<b>17.259</b>	WIA Youth Activities	13,446,328
<b>17.260</b>	WIA Dislocated Workers	15,229,340
<b>84.126</b>	Rehabilitation Services – Vocational Rehabilitation Grants to States	48,392,760
Total Type A Programs		<u>\$ 676,441,130</u>

**Note 3 - Unemployment Insurance (CFDA #17.225)**

The Commonwealth paid out \$530,010,492 in benefits in FY 04. The amounts shown on the accompanying schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$33,133,132 of federal funds expended for administration of the program, resulting in a combined total of \$563,143,624 in federal expenditures.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**Note 4 - Research and Development Expenditures**

OMB Circular A-133 Section 105 states, "Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity."

The expenditures presented in the SEFA include R&D expenditures. The R&D portion of the expenditures for each program is listed below.

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
<b>84.126</b>	Rehabilitation Services – Vocational Rehabilitation Grants to States	\$ 89,714
	<b>Total R&amp;D Expenditures</b>	<u>\$ 89,714</u>

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-1: The Division Of Unemployment Insurance Should Strengthen Controls Over Systematic Programs To Ensure Accurate Information Is Available For Closing Package Reporting**

---

The agency has made several improvements in reporting the delinquent employer contribution receivables on the closing package. However, during testing of 45 delinquent employer contribution receivables and 45 deferred revenues, we discovered the following errors:

- Reports and/or payments were posted to an incorrect account and were not properly corrected during the audit process.
- Payments were received and not automatically applied to the outstanding balance on Program 42. This resulted in accounts receivable and accounts payable balances appearing in the system simultaneously for the same account at 6/30/04.
- Wages, excess wages, and taxable wages were scanned incorrectly on Program 42, which created a receivable. The errors were not caught during the audit process.
- In some instances journal entries were performed incorrectly or lacked proper supporting documentation to determine the cause for the adjustment (i.e. employer amended wages, etc.).
- Overpayments established over 5 years ago were still on the system and reported as deferred revenue. Information supporting the balance has been purged and cannot be verified.
- Receivable or deferred revenue amounts reported at 6/30/04 were not supported on the system when testing. The agency lacked adequate supporting documentation to explain these discrepancies.

Incorrect account balances results in an overstatement of receivables from delinquent employer contributions and deferred revenue on the closing package forms submitted to Finance for financial reporting purposes. An adjustment to decrease the accounts receivable balance in the amount of \$10,173,699 was reported to and made by Finance.

Proper internal control dictates that the agency should have a computer system in place to adequately maintain employer accounts to ensure that information input into the system is accurate and reliable.

Generally Accepted Accounting Principles (GAAP) dictates that government funds recognize revenues in the accounting period in which they become susceptible to accrual – both measurable and available. Therefore, amounts that are available, but not otherwise measurable, should be reported as deferred revenues rather than as revenue.

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-1: The Division Of Unemployment Insurance Should Strengthen Controls Over Systematic Programs To Ensure Accurate Information Is Available For Closing Package Reporting (Continued)**

---

**Recommendation**

During testing this year, we noted areas of improvement from the prior year audit. However, there are several areas that still need to be addressed. Computer system and staff controls should be enhanced to ensure proper reporting of the closing package forms for Financial Statement purposes. Controls should be enhanced to prevent the reoccurrence of errors that affect the employer accounts.

**Management Response and Corrective Action Plan**

*As was noted there are improvements. We continue to train staff and make maintenance and programming changes as needed to address IT issue. We believe these efforts will continue to improve employer account receivable and payable balances.*

- There are instances where payments are posted erroneously, and indeed this is one of the conditions we attempt to identify and correct in our report audit process. We are making efforts to ensure that the audit process is completed prior to the closing package. Continued training of staff should decrease these errors.*
- We agree that there are instances where payments that should have been automatically applied to an existing receivable were not correctly applied. We will investigate this and attempt to correct through training. Where programming “bugs” are identified we will request that COT correct the problem.*
- An outside vendor scans wages, excess wages and taxable wages. It is difficult for us to detect and correct incorrectly scanned wages, excess wages and taxable wages. We believe this to be an isolated incident.*
- Again, the finding of erroneous journal entries is being addressed through additional staff training and edits in the audit process.*
- When preparing this years closing package we will not include deferred revenue amounts over five 5 years old.*
- There are some instances where supporting documentation is lacking. We continue to stress to staff to adequately describe the reason for journal entries in the “Comment” section as well as having documents imaged that will support corrections.*

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-2: The Division Of Unemployment Insurance Should Implement Controls To Ensure Proper Review Of Closing Package Forms Submitted To Finance And Administration Cabinet**

---

For FY 04, CWD prepared closing package forms and submitted them to Finance And Administration Cabinet (FAC) without adequate review. As a result of the inadequate review the issues below were noted:

**Accounts Payable:**

During the accounts payable audit, the auditor noted that the estimated benefits payable to claimants included new year money due to a formula error. Further, the total population used to calculate the accounts payable estimate could not be verified to supporting documentation. Therefore, the agency had to revert back to the prior year methodology in estimating the amounts payable to claimants and submits an amended closing package for a second time. The auditor also noted the estimate for payments to other States accounted for the IRS withholding payments twice. This was brought to the agency's attention in the prior year audit; however, the total check register payments and the withholding amounts were used to calculate the FY 04 estimate.

**Accounts Receivable:**

During the accounts receivable audit, the auditor noted several errors on the closing package. The errors included:

- Benefit overpayment receivables did not include penalties and interest;
- The allowance for uncollectibles equaled prior year actual write-offs and was not calculated based on the methodology documented;
- Other state receivables within 30 days included charges for the 6/30/04 quarter, which is not billed until July; and
- Several mathematical errors were noted, which were brought to the agency's attention in the prior year audit to prevent future errors. The agency submitted an amended closing package; however, some of the others were still not corrected.

**Closing Package:**

The agency submitted a final amended closing package; however, several errors were still noted. The errors included:

- A transposition of a number during the calculation of employer tax receivables within 30 days;
- The actual write-offs used to determine the allowance for uncollectibles for benefit overpayments did not agree to the Federal ETA 227 report for FY 03 and FY 04; and
- Several other mathematical errors were noted.

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-2: The Division Of Unemployment Insurance Should Implement Controls To Ensure Proper Review Of Closing Package Forms Submitted To Finance And Administration Cabinet (Continued)**

---

The numerous errors noted in the closing package created erroneous financial statement amounts and required several revisions on behalf of FAC and CWD.

Good internal controls dictate that adequate review procedures should be in place to ensure that the closing package contains verifiable and accurate data before submission.

**Recommendation**

We recommend that CWD implement controls to ensure that the closing packages are prepared consistently and accurately before submission. We also recommend that the information reported on the closing package be properly supported and verifiable.

**Management's Response and Corrective Action Plan**

- *Changes have been implemented to assure the closing packages submitted are inclusive of accurate calculations. The closing packages will be verified for accuracy prior to submission.*
- *Penalty and Interest was added to the amended report dated 9/27/04.*
- *Other states' receivables will be used for bills over 30 days old.*

**FINANCIAL STATEMENT FINDINGS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-3: The Cabinet For Workforce Development Should Strengthen Controls Over The Processing Of The Unemployment Insurance Claimant Overpayments**

---

While testing the Accounts Receivable closing package, the auditor identified weakness within the UI Claimant Overpayment process.

- The auditor noted lien fees processed from Fund 1200 are received in Fund 6200. These fees are not reimbursed to Fund 1200 and have not been for several years. The agency did go back to 2000 in an attempt to see what was owed to fund 1200.
- No action has been taken by CWD on a prior year verbal comment relating to the way in which the agency calculates interest on overpayments. Interest for the overpayment is simply calculated based upon the principal overpayment amount, not the principal amount plus any accrued interest at that date.

As a result of the above findings,

- Fund 1200 does not recoup their monies paid out on lien fees even after the claimant has paid back their overpayment, including the fee. This creates an understatement for fund 1200 and an over statement in fund 6200 of receipts.
- As a result of the miscalculation of interest, this represents a loss in interest that is earned and due to the agency when they do not properly charge the claimant.

KRS 341.415 (5) states:

In the event benefits have been paid as a result of false statement, misrepresentation, or concealment of material information by a recipient of benefits and have not been repaid by the recipient within one (1) calendar year from the date of the first notice, interest at the rate of one and five-tenths percent (1.5%) per month or any part thereof, shall be imposed on and added to the unpaid balance each successive month, providing due notice has been given to the recipient. Such interest shall be paid into the unemployment compensation administration account.

**Recommendation**

We recommend the agency implement controls to ensure all monies received are properly posted to the appropriate fund.

**FINANCIAL STATEMENT FINDINGS**

***Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance***

**FINDING 04-CWD-3: The Cabinet For Workforce Development Should Strengthen Controls Over The Processing Of The Unemployment Insurance Claimant Overpayments (Continued)**

---

**Recommendation**

We recommend the agency further investigate the program responsible for calculating the interest on overpayments and update the software to ensure the agency is receiving all interest due them from claimants that have an overpayment account.

**Management Response and Corrective Action Plan**

*The Benefit Payment Control Section has provided the Trust Fund Officer with the lien fee information from 7/99. A journal voucher was processed on 10/04 to move the money to the correct account 1200. This process is now being done monthly. Programming is in process to calculate interest on the total amount of overpayment including interest. This should be in place for the closing package FY 2005.*

## FINANCIAL STATEMENT FINDINGS

### *Other Matters Relating to Internal Controls and/or Instances of Noncompliance*

#### **FINDING 04-CWD-4: The Department For Workforce Investment Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized**

As noted during the previous audit, the Department for Workforce Investment (Workforce) did not restrict critical information divulged by their network machines. During the review of the Workforce local area network (LAN) security for FY 04, we discovered several instances where machines within the LAN provided information to anonymous users that could potentially help an intruder develop details for an attack.

Using standard scanning tools, we reviewed the machine names and other remarks for all machines located within two (2) Workforce domains. We noted 58 machines with remarks that would be useful in attempts against the security of this network domain. Some of these remarks are the user names of each of the machines; however, there are several that might catch an intruder's interest. We also noted that the naming convention of machines was not sufficiently ambiguous to disguise the function of some of the machines.

We also ran other vulnerability assessment tools twice during the FY on 102 machines within two (2) Workforce domains to determine if they would return information on Local Security Authority (LSA), Password Policies, or Valid User, Group, or Share Lists. The following table depicts the number of machines that provide this information.

Type of Information	Number of Machines Returning Information	Percentage of 102 Machines Tested
LSA	18	17.6%
Password Policies	7	6.9%
Valid User List	7	6.9%
Valid Group List	7	6.9%
Valid Share List	7	6.9%

Note that three (3) of the machines from which we obtained the password policy were also reported in the FY 03 comment. We do acknowledge that significant improvements have been made with regards to the types of information divulged by Workforce machines. This positive result is due in part to the restricted access of two (2) of the four (4) domains previously reviewed.

If a machine is set up to provide excessive information associated with the machine, then an intruder could use this information in order to gain unauthorized access to the machine or network.

An agency's domain information that is accessible to the world at large through inquiry tools should be kept at a minimum. Agencies should ensure that information such as user, location, accounts associated with the machine, type of data residing on the machine, and the machine's role is not divulged or is stated in the most minimal of terms. To accomplish this, an agency can set devices to not respond to certain types of inquiries, use naming conventions that obscure the purpose of machines, and provide no comments on machine activity.

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-4: The Department For Workforce Investment Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized (Continued)**

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**Recommendation**

We recommend that the Department for Workforce Investment continue to improve restrictions on the level of information that is being provided by their LAN machines to anonymous users. The naming convention for machines should be altered to make them more ambiguous and any unnecessary comments associated with the machines should be removed. In addition, restrictions should be placed on what types of responses machines provide based on certain inquiries.

**Management Response and Corrective Action Plan**

*In response to your ongoing assessment of the security of the Commonwealth computer systems, we have investigated the vulnerabilities identified in your February 24, 2005 audit memorandum to the Education Cabinet. This letter should explain the results of our investigation and how we have attended to each item. We believe that network security is even more essential in these troubled times and we appreciate your continued diligence and assistance in assuring that the computer systems of the Education Cabinet are safe.*

*All the findings noted during the interim vulnerability assessment testing of machines within the Education Cabinet have been examined. Education Cabinet recognizes the importance of security. The Education Cabinet has assigned two full time staff members to monitor, analyze and to work on correcting our network/Domain in an effort to comply with set security standards.*

**Auditor's Reply**

The agency's response provided additional information indicating that some vulnerable ports and services are necessary. Those machines requiring special setup will be considered during future security assessments for the Department for Workforce Investment, which is now the Education Cabinet.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

#### **FINDING 04-CWD-5: The Department For Workforce Development Should Ensure That All Open Ports On Networked Servers Have A Business-Related Purpose**

During the security vulnerability assessments for FY 04 for machines controlled by Workforce, our examination revealed that there were several machines with ports open that may not have a specific business-related purpose. We examined the open ports on 26 machines returning information during our scans. Due to the large number of issues, we grouped the findings below by port number and application.

##### **Port 21 – FTP**

Twenty-three machines were identified with FTP port 21 open. Nine (9) of these machines were noted as web servers for Workforce. Only three (3) of these machines allowed access to a login screen, of which one (1) of these machines was noted in the previous assessment with the same issue. Attempts to login to these machines anonymously were either terminated or timed out so anonymous access is not an issue. However, one (1) machine provided a banner of “ProFTPD 1.2.10 Server (Debian)” software. There is an exploit noted of a buffer overflow vulnerability reported for ProFTPD.

##### **Port 25 – SMTP**

Sixteen machines were found to have port 25 open, which is used for Simple Mail Transfer Protocol (SMTP). It was determined that 11 of these machines are not running the most current version of SMTP that is available. There are vulnerabilities associated with less current versions of SMTP.

##### **Port 53 – DNS**

One (1) machine was identified as having port 53 open, which is used for the DNS service. There are many security vulnerabilities associated with this service. A remote attacker could execute arbitrary code with the privileges of the application that made the request or cause a denial of service.

##### **Port 79 – Finger**

One (1) machine was identified as having port 79 open, which is used for the Finger service. This service allows a person to remotely check information on a user or system. There are vulnerabilities associated with the Finger Service.

##### **Port 80 – HTTP**

Eleven machines were found to have port 80 open that appeared to be under construction or were in the process of being updated. Two (2) of these machines were noted in the prior year comment for FY 03. When no default website page or login request is present, normally this means that no application/web service is running and the port is not needed. This exposure would be enticing to a hacker.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

#### **FINDING 04-CWD-5: The Department For Workforce Development Should Ensure That All Open Ports On Networked Servers Have A Business-Related Purpose (Continued)**

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Further, two (2) additional machines with this port open were noted with known vulnerabilities. One (1) machine has the apache webserver successfully installed as the website, which has the htdigest utility that may be prone to a command line execution. Another machine provides access to a test site for another host server that allows a banner grab on this port indicating that IIS/5.0 server is running as a default.htm. There is an exploitable denial of service condition in this version. More significant is the invitation this website provides to any user at what appears as a web administrator.

#### **Port 111 – RPC**

Four (4) machines were identified as having port 111 open. This RPC port is a place listing where certain services could be running and allowing numerous vulnerabilities to exist. For example, the Network Information Service (NIS) update daemon rpc.yupdated contains exposures in how it passes commands to certain function calls. This could allow a remote attacker to trick the service into executing arbitrary commands on the system with root privileges.

#### **Port 161 – SNMP**

Four (4) machines were identified with SNMP (Simple Network Management Protocol) service running. SNMP is a mechanism for administering machines in a network that if incorrectly configured, can provide a straightforward way for an intruder to gather significant information about the network. The SNMP service should be disconnected or the appropriate patches should be applied to the service to mitigate the possibility of a denial of service attack and/or potential intruders from gathering excessive information. If the service is not disconnected the public account name should be changed from the default.

#### **Port 443 – Hypertext Transfer Protocol over Secure Socket Layer (HTTPS/SSL)**

Fifteen machines were found with port 443 open and did not appear to have an application/web service running on them. Port 443 is a default port for HTTPS/SSL, which is the encrypted form of HTTP that normally runs over port 80 by an e-commerce site. When no default page or restricted logon is required, normally this means that no application/web service is running at the port. The necessity of these ports should be reviewed. Additionally, four (4) machines were hosting an apache server, which may be prone to a command line execution. None of these of machines were part of the prior year comment for this issue.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

#### **FINDING 04-CWD-5: The Department For Workforce Development Should Ensure That All Open Ports On Networked Servers Have A Business-Related Purpose (Continued)**

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##### Port 514 – Syslog

Five (5) machines were determined to have port 514 open and appear to be web servers. This port receives incoming 'syslog' messages and logs them to a database. The 'syslogd' is one of the more important daemons running on a UNIX host. A common hacker technique is to flood messages at the syslog daemon in hopes to fill up its queue. The actual versions of services running on these open ports were not identified, so the specific vulnerabilities for each machine could not be discussed.

##### Port 2001 – (Cisco Mgt.)

One (1) machine had port 2001 open during follow up of prior year issues. This port is commonly open on Cisco routers, and is susceptible to the Trojan software providing a doorway for an unauthorized user to gain access.

##### Port 2301 – (CIM)

Seven (7) machines were found to have port 2301 open when following up on this issue and each machine automatically provided anonymous access for the auditor. However, attempts to login as an administrator and/or operator were rejected. Anonymous access provides too much information to a potentially unauthorized user.

##### Port 4899 – Radmin

Two (2) machines were found to have port 4899 open, which is commonly used for remote access and users often fail to enable secure and/or strong password. Also, if password authentication is being used, a remote user only has to find this port open and guess the user's password. Further, there is the possibility of an unknown exploit in radmin that could allow access without a password.

##### Port 6667 – IRC

Five (5) machines were identified as having port 6667 open. This port can be used for several unsavory issues such as denial of service attacks, Trojan horse attacks, and downloading of illegal files. This port could be enticing to a hacker and should only be used for necessary business-related applications.

Intruders could obtain access to a system through an open port if proper security measures are not applied.

The existence of open ports is an invitation for intruders to enter your system. To minimize the risk of unauthorized access to a machine, only necessary, business-related ports should be open. Further, the application residing at these ports should be secured to the extent possible.

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-5: The Department For Workforce Development Should Ensure That All Open Ports On Networked Servers Have A Business-Related Purpose (Continued)**

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**Recommendation**

We recommend that the Department of Workforce Investment continue to review all open ports to ensure there is a specific business-related purpose requiring the port to be open. If not required, then that port should be closed. If the port is necessary then Workforce should ensure the most recent patches are implemented for the service in use and that adequate logical security controls are implemented to prevent unauthorized access as necessary.

**Management Response and Corrective Action Plan**

*In response to your ongoing assessment of the security of the Commonwealth computer systems, we have investigated the vulnerabilities identified in your February 24, 2005 audit memorandum to the Education Cabinet. This letter should explain the results of our investigation and how we have attended to each item. We believe that network security is even more essential in these troubled times and we appreciate your continued diligence and assistance in assuring that the computer systems of the Education Cabinet are safe.*

*All the findings noted during the interim vulnerability assessment testing of machines within the Education Cabinet have been examined. Education Cabinet recognizes the importance of security. The Education Cabinet has assigned two full time staff members to monitor, analyze and to work on correcting our network/Domain in an effort to comply with set security standards.*

**Auditor's Reply**

The agency's response provided additional information indicating that some vulnerable ports and services are necessary. Those machines requiring special setup will be considered during future security assessments for the Department for Workforce Investment, which now is the Education Cabinet.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

#### **FINDING 04-CWD-6: The Department For Workforce Investment Password Policy Should Be Consistently Applied To All Local Area Network Servers**

As was noted in the previous audit, Workforce did not ensure password policies established on machines adhered to the agency-established password policies. During security vulnerability testing of machines controlled by Workforce for FY 04, the auditor obtained account related information for seven (7) machines within two (2) Workforce domains. This information was compared to the agency-established password policy criteria. See the table below for a summary of our findings.

<b>Security Measure</b>	<b>Standards</b>	<b>Number of machines not in compliance with policy</b>
Minimum Length	8 characters	3 – None 1 – 6 characters
Minimum Age	1 day	6 – None
Maximum Age	31 days	3 – 42 days
Lockout Threshold	3 attempts	6 – None

Three (3) of these machines were noted with the same password policy issues in the prior year report comment.

If machines within a network are not sufficiently secured, the network could be compromised.

Passwords are an important aspect of computer security. They are the front line of protection for system access. To help ensure the security of a network, it is necessary for a strong password policy to be developed and implemented on all servers within the network in a consistent manner.

#### **Recommendation**

We recommend Workforce review all machines within their agency-owned domains to ensure that the password policies established complies with the policy established by the agency.

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-6: The Department For Workforce Investment Password Policy Should Be Consistently Applied To All Local Area Network Servers (Continued)****Management Response and Corrective Action Plan**

*In response to your ongoing assessment of the security of the Commonwealth computer systems, we have investigated the vulnerabilities identified in your February 24, 2005 audit memorandum to the Education Cabinet. This letter should explain the results of our investigation and how we have attended to each item. We believe that network security is even more essential in these troubled times and we appreciate your continued diligence and assistance in assuring that the computer systems of the Education Cabinet are safe.*

*All the findings noted during the interim vulnerability assessment testing of machines within the Education Cabinet have been examined. Education Cabinet recognizes the importance of security. The Education Cabinet has assigned two full time staff members to monitor, analyze and to work on correcting our network/Domain in an effort to comply with set security standards.*

*We have been renaming local Administrator passwords on all newly installed computers, and we are systematically renaming default local passwords on older equipment at remote sites. We have changed the Domain Administrator password to make it more secure. Efforts are also being undertaken to ensure that security policies are finalized and issued to all employees. We are in the process of making changes to the workstations settings to limit the information being made available.*

**Auditor's Reply**

The agency's response provided additional information indicating that some vulnerable ports and services are necessary. Those machines requiring special setup will be considered during future security assessments for the Department for Workforce Investment, which is now the Education Cabinet.

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-7: The Department For Workforce Investment Should Ensure All Available Web Services On A Network Have Updated Security Patches Installed And Applied To All Networked Machines**

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Workforce should ensure Web Services installed on machines are updated with current security patches. During security vulnerability testing of machines controlled by Workforce for FY 04, the auditor obtained web service related information from fifteen machines within two (2) Workforce domains.

Ten of these machines have buffer overflow issues that can be abused to view any file on the same disk volume. One (1) machine reports a Microsoft Frontpage vulnerability, which contains a buffer overflow that allows the remote execution of arbitrary code. Two (2) machines allow remote administration through the IIS admin service, which is not limited to the loopback address. This exposure would allow an unauthorized user to reconfigure the respective web server. Further, two (2) other machines have Apache Webserver software installed on their website, but these secure socket layer issues are considered to be minor in risk.

If machines within a network have web services running that allow the above security issues, the stability of the network could be compromised.

Installed web services without a specific business purpose may subject the network to buffer overflow issues and execution of arbitrary commands to circumvent network security and view network server volume files. To assist in securing a network adequately, it is necessary to ensure all required web services have the most current security patch installed or disable any web service that does not have a know business function.

**Recommendation**

We recommend Workforce review all machines within their agency-owned domains for default web services and disable any service that does not have a legitimate business purpose. Further, updated patches should be installed and/or other measures taken as needed to prevent the noted buffer overflow vulnerabilities.

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-7: The Department For Workforce Investment Should Ensure All Available Web Services On A Network Have Updated Security Patches Installed And Applied To All Networked Machines (Continued)**

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**Management Response and Corrective Action Plan**

*In response to your ongoing assessment of the security of the Commonwealth computer systems, we have investigated the vulnerabilities identified in your February 24, 2005 audit memorandum to the Education Cabinet. This letter should explain the results of our investigation and how we have attended to each item. We believe that network security is even more essential in these troubled times and we appreciate your continued diligence and assistance in assuring that the computer systems of the Education Cabinet are safe.*

*All the findings noted during the interim vulnerability assessment testing of machines within the Education Cabinet have been examined. Education Cabinet recognizes the importance of security. The Education Cabinet has assigned two full time staff members to monitor, analyze and to work on correcting our network/Domain in an effort to comply with set security standards.*

**Auditor's Reply**

The agency's response provided additional information indicating that some vulnerable ports and services are necessary. Those machines requiring special setup will be considered during future security assessments for the Department for Workforce Investment, which is now the Education Cabinet.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

#### **FINDING 04-CWD-8: The Department For Workforce Investment Should Ensure All Networked Machines Have The Internet Control Message Protocol (ICMP) Disabled To Prevent Excessive Network Traffic**

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Workforce should ensure that services installed on machines are updated with current security patches. During security vulnerability testing of machines controlled by Workforce for FY 04, the auditor obtained Internet Control Message Protocol (ICMP) responses from 44 machines within two (2) Workforce domains. By providing ICMP echo replies, these machines are vulnerable to attacks that use these replies to exhaust the available bandwidth and deny services to legitimate users.

If machines within a network are subject to forged ICMP echo packets, the network could be compromised. Excessive packet broadcasts circumvent the controls applied at the network router and allow an ICMP magnification attack.

To reduce the risk of excessive network traffic, specific rules should be enforced at the network perimeter to block inbound packets that have internal source addresses and stop outbound packets that have external source addresses. Further, to avoid excessive risk of denial of service attacks or other disruptions by malicious or erroneous packets, all ICMP packets should be identified by network routers and blocked if not intended for legitimate network diagnostics. Additionally, network administrators may also configure the host machines on the network to ignore ICMP broadcasts entirely.

#### **Recommendation**

We recommend that Workforce review all machines within their agency-owned domains for ICMP default services and disable any service that does not have a legitimate business function. Further, Workforce should consider implementing routing controls to help prevent potential ICMP service based attacks.

#### **Management Response and Corrective Action Plan**

*In response to your ongoing assessment of the security of the Commonwealth computer systems, we have investigated the vulnerabilities identified in your February 24, 2005 audit memorandum to the Education Cabinet. This letter should explain the results of our investigation and how we have attended to each item. We believe that network security is even more essential in these troubled times and we appreciate your continued diligence and assistance in assuring that the computer systems of the Education Cabinet are safe.*

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-8: The Department For Workforce Investment Should Ensure All Networked Machines Have The Internet Control Message Protocol (ICMP) Disabled To Prevent Excessive Network Traffic (Continued)**

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**Management Response and Corrective Action Plan**

*All the findings noted during the interim vulnerability assessment testing of machines within the Education Cabinet have been examined. Education Cabinet recognizes the importance of security. The Education Cabinet has assigned two full time staff members to monitor, analyze and to work on correcting our network/Domain in an effort to comply with set security standards.*

**Auditor's Reply**

The agency's response provided additional information indicating that some vulnerable ports and services are necessary. Those machines requiring special setup will be considered during future security assessments for the Department for Workforce Investment, which is now the Education Cabinet.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-9: The Department For Employment Services Should Implement Controls To Ensure Proper Review Of Timesheets To Prevent Coding Errors**

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State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.207 – Employment Service

CFDA 17.801 – Disabled Veterans’ Outreach Program (DVOP)

CFDA 17.804 – Local Veterans’ Employment Representative Program

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed and Allowable Costs/Cost Principles

Amount of Questioned Costs: None

During the test of compliance for the Activities Allowed/Allowable Cost requirement, the auditor noted the following weaknesses with the 48 payroll expenditures tested:

- Three (3) instances where the timesheet was not totaled correctly. These errors were not corrected when the supervisors reviewed the timesheets.
- Two (2) instances where the timesheet leave data did not match the Leave Balance Summary Report (Report 164).
- Five (5) instances where time was not appropriately distributed to the proper program code, based on the Payroll Distribution Charges Report (Report 153).

The auditor also noted eight (8) instances in which the hours charged on timesheets did not agree to the hours charged on Report 153. For example, an employee worked 83.5 hours (with no overtime) and the Report 153 showed 82.5 hours worked. The system defaulted to the standard pay period of 82.5 and no over ride code was entered to correct the employees time worked. This did not affect the employee’s salary or expenditures charged to federal programs.

The auditor found that adequate controls were not in place to prevent errors from going undetected.

As a result of the above errors, time charged to a program may not be accurate, which could result in an overstatement/understatement of indirect payroll costs. Errors on timesheets can go undetected when an adequate review process is not in place. Errors on timesheets could result in miscoding that affects other compliance requirements of the program. Errors when key punching the timesheet information into the system can create inconsistencies between printouts and actual timesheets.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-9: The Department For Employment Services Should Implement Controls To Ensure Proper Review Of Timesheets To Prevent Coding Errors (Continued)**

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Per OMB Circular A-87:

[c]harges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit . . . Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification . . . Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports . . .

**Recommendation**

We recommend the agency implement controls to ensure the following:

- Personnel are aware of the proper program codes for their assigned tasks.
- Employees are appropriately trained to ensure accuracy with timesheet preparation and review.
- Timesheet reviews verify that timesheet data has been accurately recorded into UPPS.

**Management Response and Corrective Action Plan**

*Controls are in place to help prevent inaccuracies for timesheet coding; however, we recognize that additional attention in this area is needed. Currently there are three levels control, the employee is responsible for accurately reporting his or her time, the supervisor is responsible for the first level of review and the area timekeeper performs the final level of review when the information is entered and extracted into the payroll system. The Time & Labor edit, in Document Direct, is the 4<sup>th</sup> control point; it is used to make corrections to default codes after payroll is entered. The timekeeper function is decentralized to the local office and branch level. Recent turnover of staff and staff shortages have been a contributing factors in the deficiencies found.*

*According to the Cabinet Payroll Manager, it is the responsibility of management or timekeepers to make the payroll area aware of errors made on leave balance summaries for changes. Errors are corrected when identified. These corrections will*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-9: The Department For Employment Services Should Implement Controls To Ensure Proper Review Of Timesheets To Prevent Coding Errors (Continued)**

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**Management Response and Corrective Action Plan**

*not reflect on the 153. Payroll has now been centralized to the Cabinet level; however, timekeeping remains a decentralized function.*

*When employees are working flex schedules and are not using override codes, the UPPS system automatically defaults to standard pay period hours. This is a system flaw that would take programming to rectify. Cabinet staff is aware of this issue.*

*This Office feels sufficient controls are in place to prevent inaccurate time sheet reporting; however, these controls must be strengthened through increased attention and additional training. The Office has already acknowledged the need for refresher training on timesheet coding. This issue was addressed with managers in the last OET Manager Meeting. Additional training is scheduled for the next meeting.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-10: The Department For Employment Services Should Strengthen Controls Over The Review And Approval Process For Allowable Costs**

State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.207 – Employment Service

CFDA 17.801 – Disabled Veterans’ Outreach Program (DVOP)

CFDA 17.804 – Local Veterans’ Employment Representative Program

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed and Allowable Costs/Cost Principles

Amount of Questioned Costs: None

While testing compliance with the allowable costs requirement for the Employment Services program, the auditor selected a transaction in the sample that was from a closed fraud case. The auditor requested the supporting information and found that the transaction was for the purchase of personal items at a retail grocery. The purchase was made on a retail grocery credit card that was issued in the agency’s name and had been requested by the agency to be destroyed. For the agencies’ purposes, the Kentucky State Police investigated this matter and referred it to the Franklin County Commonwealth Attorney for prosecution action. The former employee was ordered to pay \$6,688 in restitution. However for compliance purposes, the employee was charging the personal expenses to a cost allocation expenditure code that would then get allocated to different federal programs. Through discussion with the newly appointed Commissioner, it was noted in February 2005 that the DOL had never been notified of this situation. The agency informed the auditor that appropriate action was taken in the form of investigative work on behalf of the agency; however, there was no documentation provided to the auditor of the investigation or its results.

Through further inquiry, the auditor found that the supervisor of this employee was not adequately reviewing and properly approving documents; which allowed this situation to grow into thousands of dollars being mishandled. The supervisor approved several transactions that were in the auditor’s sample. Through conversations with the agency, it was noted the supervisor did not possess the knowledge or skills to approve program allowable cost transactions. This was supported as the expenditures were for personal items and not allowable costs under the program. The auditor is expanding the review to include other fiscal years’ expenditures for additional personal items that may have been approved.

During the same test addressed above, the auditor noted (2) two transactions that were for payment to CFC for monthly operational costs that are under an interagency lease agreement but no support was available. Upon discussion with agency persons, the auditor was informed that detailed support was not normally provided to the agency.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-10: The Department For Employment Services Should Strengthen Controls Over The Review And Approval Process For Allowable Costs (Continued)**

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The auditor did obtain a copy of the interagency lease agreement but detailed invoices are not supplied to the agency to ensure that they are only billed for their portion of the operational costs.

Weak supervisory controls have led to a misuse of federal funds in the Employment Services program. The lack of adequate supervisory oversight allowed personal expenditures to be paid with program funds. When a supervising individual has limited knowledge of the system and allowable costs of the program, an employee can misuse program funds.

Inadequate supporting documentation can lead to overpayments being charged to the program.

Proper internal controls dictate that knowledgeable individuals provide adequate review and proper approval for transactions within the agency. There should be appropriate supervisory review by someone that has been trained and is aware of program allowable costs.

OMB Circular A-87 states,

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

- (1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

**Recommendation**

We recommend CWD reevaluate the controls over transaction approval. We recommend that the agency ensure all supervisors are well trained and knowledgeable of the program's allowable costs when approving transactions. Also, upper level management should have appropriate oversight to ensure personnel are performing their job duties as outlined and documented in their performance evaluation.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-10: The Department For Employment Services Should Strengthen Controls Over The Review And Approval Process For Allowable Costs (Continued)**

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**Recommendation**

We recommend that CWD obtain and maintain all supporting documentation for program charges. This support should be obtained and reviewed prior to transaction approval and payment.

We also recommend FAC do a thorough review into the Commonwealth's credit card usage. During the course of this audit we confirmed credit cards (home improvement, retail stores, other credit card companies, etc.) other than ProCard were in existence in other state agencies. Unlike the extensive oversight procedures adopted by ProCard, no comprehensive inventory of these cards exists and the oversight procedures are unknown at the central level. We recommend FAC identify all non ProCard credit cards and either apply the appropriate FAP or cancel the cards.

**Management Response and Corrective Action Plan*****CWD Response:***

*The Office of Employment and Training agrees with this finding. The credit card abuse was discovered by the Agency in December of 2003. An extensive review was completed upon discovery. P1 documents paid by the former employee in the quarter prior to discovery were 100% reviewed for potential abuse. Procurement cards, payments and expenditures were reviewed as well as Trade and KTAP payments for potential abuse. The Finance and Administration Cabinet ran a special report that provided a listing of all agency-mailed checks so these could be reviewed for fraud. Specific vendors, social security numbers, and ZZAdvantage documents were also queried and reviewed. Internal Security was involved and took the lead on the investigation. Staff in the Administration & Financial Management Division assisted Internal Security. The misuse of the credit card was the only fraudulent activity found. An Internal Security Report and additional documentation on the internal review is available. The Internal Security officer canceled the credit card in question after the abuse was found.*

*The employee in question is no longer with this agency. The supervisor that approved these payments has since been taken out of a supervisory role. The supervisor had been provided MARS training and had been advised on allowable*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-10: The Department For Employment Services Should Strengthen Controls Over The Review And Approval Process For Allowable Costs (Continued)**

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**Management Response and Corrective Action Plan**

*program expenditures. Performance Evaluations reflect the deficiencies of this supervisor. An additional level of review was put in place immediately after discovery of this problem. Since then, the responsibility for payment processing has moved to the Cabinet level.*

*Restitution has been made and deposited back into the Federal Programs that were originally charged.*

*II. The Cabinet for Health and Family Services (CHFS) creates an IX document for rental/property costs. We have consistently performed a responsibility test before approving IX documents but have not had the supporting detail to do more. CHFS has recently begun providing additional object code detail within the IX document. IX documents are created by CHFS from a MARS report. CHFS has agreed to begin providing OET a copy of the report to support all future IX documents.*

***FAC Response:***

*We agree with your recommendation and will be reviewing credit card usage by all state agencies. When the review is complete we will amend our Policy and Procedure Manual to limit use of credit cards to those specifically approved by the Finance and Administration Cabinet and in addition provide oversight similar to ProCard.*

**Auditor's Reply**

During the course of the audit, the auditor spoke with agency personnel and the supporting documentation related to their work performed was not available. The auditor specifically asked for the information that was reviewed and all information, including what was pulled from the employee's desk was unavailable. Some information was attainable via internal security but nothing showing specific transactions reviewed by the agency. The auditor also spoke with the state police detective that investigated this situation and was once again informed that the agency did not provide documentation of their review. Therefore, the auditor at this date has not witnessed any evidence of the agency's review.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-11: The Department For Employment Services Should Strengthen Controls To Ensure Compliance With Federal Earmarking Requirements**

State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.207 – Employment Service

CFDA 17.801 – Disabled Veterans’ Outreach Program (DVOP)

CFDA 17.804 – Local Veterans’ Employment Representative Program

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Earmarking and Reporting

Amount of Questioned Costs: None

During the test of compliance with the earmarking requirement, the auditor noted that the agency was not properly meeting and reporting accurately the percentages required under the Wagner-Peyser Act. Further investigation identified the agency consistently fell below the 10% earmarking requirement established by the Wagner-Peyser Act, but was reported accordingly on the FSR 269 Report for grant number 2070200Z. Even though the report appeared accurate, the agency was performing journal vouchers to transfer expenditures to meet the earmarking requirement.

The agency was unable to provide supporting documentation to the auditor for the full amount that made up the 10% earmarking on their federal reports. They were taking expenditures that were not coded as an earmarking transaction and transferring them to an accounting code to meet the total dollar amount required. For example in the report above, the agency needed to have \$994,988 in expenditures for tasks outlined in the Wagner-Peyser Act to ensure that they met the earmarking requirement. They actually had \$604,762 in expenditures that were coded to the proper tasks outlined in the act and \$390,226 in expenditures that were transferred. These transfers enable the agency to comply with the 10% requirement; however, there is no support to ensure the transfers were for specified tasks that would allow them to be coded to meet the earmarking requirement.

The justification that was provided to us to support the transfer was that the local offices were doing the work to meet the 10% as specified in the act, they were just not properly coding their time to reflect the tasks completed.

Inaccurate reports are being sent to the DOL when amounts are not supported by the services provided.

## FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Reportable Conditions Relating to Internal Control and/or Reportable Instances of Noncompliance*

#### **FINDING 04-CWD-11: The Department For Employment Services Should Strengthen Controls To Ensure Compliance With Federal Earmarking Requirements (Continued)**

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The Wagner- Peyser Act states:

**SEC. 7.** (a) Ninety percent of the sums allotted to each State pursuant to section 6 may be used--

- (1) for job search and placement services to job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers;
- (2) for appropriate recruitment services and special technical services for employers; and
- (3) for any of the following activities:
  - (A) evaluation of programs;
  - (B) developing linkages between services funded under this Act and related Federal or State legislation, including the provision of labor exchange services at educational sites;
  - (C) providing services for workers who have received notice of permanent layoff or impending layoff, or workers in occupations which are experiencing limited demand due to technological change, impact of imports, or plant closures;
  - (D) developing and providing labor market and occupational information;
  - (E) developing a management information system and compiling and analyzing reports therefrom; and
  - (F) administering the work test for the State unemployment compensation system and providing job finding and placement services for unemployment insurance claimants.

(b) Ten percent of the sums allotted to each State pursuant to section 6 shall be reserved for use in accordance with this subsection by the Governor of each such State to provide--

- (1) performance incentives for public employment service offices and programs, consistent with performance standards established by the Secretary, taking into account direct or indirect placements (including those resulting from self-directed job search or group job search activities assisted by such offices or programs), wages on entered employment, retention, and other appropriate factors;
- (2) services for groups with special needs, carried out pursuant to joint agreements between the employment service and the appropriate ~~[private industry council]~~ **local workforce investment board** and chief elected official or officials or other public agencies or private nonprofit organizations; and
- (3) the extra costs of exemplary models for delivering services of the types described in subsection (a).

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-11: The Department For Employment Services Should Strengthen Controls To Ensure Compliance With Federal Earmarking Requirements (Continued)**

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**Recommendation**

We recommend the agency take corrective action to ensure that information submitted to the federal government is accurate and supported with proper documentation.

We recommend the agency ensure all employees understand the program requirements and report their time worked accordingly. The agency could provide additional training to employees so that services provided are coded correctly to support the proper time reporting of the earmarking compliance requirement.

**Management Response and Corrective Action Plan**

*The agency acknowledges that time coding that would capture the costs of activities within the realm of the earmarking requirement of the Wagner-Peyser (W/P) Act has been deficient. The adjusting entries done to reflect an amount of expenditure that satisfies the 10% requirement were done with the knowledge that significant amounts of qualifying activity was not directly charged to the code established for this purpose. The agency has documents on file that shows that 12 out of 28 field Branch Offices coded no time to the W/P 10% code and another five recorded less than 100 hours in the year. All offices engage in employer and client activity consistent with the earmarking requirement but time coding deficiencies have resulted in poor documentation of the eligible activities.*

*Corrective action has been initiated by way of notification to Branch Office managers providing a description of the services they provide that are eligible W/P 10% activity and a reminder of the coding used to record the activity. Individual follow-up is planned with those offices that recorded little or no 10% activity. A substantial turnover in managers has occurred in the last several years. The loss of experienced managers created the need for a training effort to make certain that the new group of managers possess the knowledge necessary for proper administration of programs and related matters such as time coding. This need was recognized even prior to this issue arising during the audit process. The agency discussed time coding with managers at a recent statewide meeting.*

*It was announced at the meeting that a workshop on service descriptions and time coding principles was being developed and was to be a main topic of the next statewide managers meeting planned to convene prior to the end of the current fiscal year.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-11: The Department For Employment Services Should  
Strengthen Controls To Ensure Compliance With Federal Earmarking Requirements  
(Continued)**

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**Management Response and Corrective Action Plan**

*It is recognized that an agency such as OET that is virtually 100% Federal funded through numerous individual program awards must maintain a very sound system of time recording by activity. This demand requires periodic refresher efforts for staff and management at the very least, and more intensive training following periods where large turnovers of management staff have occurred. OET management realizes the need for such ongoing administrative training and is making a strong commitment to this effort both to improve management and budget operations of the agency and as a corrective action plan to this audit finding.*

## FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Reportable Conditions Relating to Internal Control and/or Reportable Instances of Noncompliance*

#### **FINDING 04-CWD-12: The Department For Training And ReEmployment Should Process Journal Vouchers Timely**

State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.258 – WIA Adult Grants

CFDA 17.259 – WIA Youth Grants

CFDA 17.260 – WIA Dislocated Workers

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

During our review of internal controls over Reporting for the Workforce Investment Act, administered by the Department of Training and ReEmployment (DTR), we noted two problems.

First, for the National Emergency Grant (NEG) final federal report, line g, Federal unliquidated obligations, reported zero. However, a note on the supporting documentation indicated \$21,668 in “accrued expenses not posted @ Sept 2004.” Per a DTR employee, these expenses have not been posted as of February 23, 2005; however, they were incurred prior to June 30, 2004. A journal voucher will be done transferring allowable costs paid out of the 17.245-Trade Adjustment Assistance Workers grant to the NEG. The final report showing zero unliquidated obligations was submitted, when an unliquidated obligation amount of \$21,668 was indicated on the supporting documentation.

Second, the “cumulative expenditures to date” in the supporting documentation (Local Workforce Investment Area Roll-up worksheet) for the April to June 2004 quarterly financial report did not agree to the state’s accounting system (MARS) as follows:

For grants 27102 and 27302:

<b>Report Area</b>	<b>Roll-up</b>	<b>MARS</b>	<b>Difference</b>
Rapid Response (0730)	1,507,818	1,368,182	139,636
Adult Program (0750)	8,439,955	8,424,469	15,486

For grants 27002, 27202, and 27402:

<b>Report Area</b>	<b>Roll-up</b>	<b>MARS</b>	<b>Difference</b>
Total Statewide (0720)	1,770,109	1,744,196	25,912
Rapid Response (0730)	23,331	23,185	145
Rapid Response Additional Assistance (0735)	519,849	508,186	11,663
Adult Program (0750)	2,720,980	2,828,277	-107,297
Dislocated Worker (0800)	1,479,360	1,372,063	107,297

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-12: The Department For Training And ReEmployment Should Process Journal Vouchers Timely (Continued)**

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All WIA funds are initially coded to 6500-0050 (unclassified reporting category) when drawn down into MARS. A journal voucher (JV) is done each quarter to transfer funds from 6500-0050 to the appropriate reporting category. The JVs were not done to distribute the drawdowns to the appropriate reporting category for the fourth quarter of 2004.

The FSR report submitted to the Federal government is not accurate. DTR had 90 days after the close of the NEG to record actual NEG expenditures on the accounting system. There is no documentation that the “accrued expenditures” relate to the NEG or were incurred prior to June 30, 2004.

The reporting categories in MARS do not agree to the roll-up expenditure report prepared by the agency for the fourth quarter of 2004. The employee responsible for preparing the JVs left the agency. The employee, who assumed the responsibility for preparing the federal reports, did not prepare the JVs.

The instructions for completing line g of the FSR state, "Federal unliquidated obligations incurred by the project award recipient, for which an outlay (accrued expenditure) has not yet been recorded in the project award recipient's official accounting records. . . . On the final FSR, this line item should be zero. (Recipient has 90 days after all funds have been expended or the period of availability has expired to liquidate the accruals recorded during the period of performance.)."

Good internal controls dictate the accounting system properly reflects the expenditures for the WIA grants and that the federal reports agree or be reconciled to the accounting system.

**Recommendation**

We recommend DTR:

- contact the Federal government and inquire if a new final report needs to be submitted.
- prepare and process the appropriate journal vouchers as soon as possible.

**Management Response and Corrective Action Plan**

*OET agrees that the \$21,668.07 reported as “Accrued Expenditures” was not properly posted in MARS before the closeout period for the grant expired. To correct this situation, OET will revise the September 2004 “Final” Quarterly Report filed with DOL for the grant to remove the accrued expenditure amount and show the funds as being an “Unobligated Balance of Federal Funds.”*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Control and/or  
Reportable Instances of Noncompliance*****FINDING 04-CWD-12: The Department For Training And ReEmployment Should  
Process Journal Vouchers Timely (Continued)**

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**Management Response and Corrective Action Plan**

*OET agrees that the JVs to reclassify the LWIA drawdowns between reporting categories in MARS was not completed for the quarter ended June 2004. The auditor's statement that, "The reporting categories in MARS do not agree to the roll-up expenditure report prepared by the agency for the fourth quarter of 2004." is accurate, however, it is OET's contention that it is not necessary that the amounts match by reporting categories as long as the roll-up reports can be reconciled in total by grant to the amounts posted in MARS.*

*In the current process, all drawdowns requested by the LWIAs are posted by individual grant in MARS as 6500-0050 (Unclassified). OET would then use the expenses per cost category from the "roll-up expenditure reports" as the basis for the adjustment to reclassify the total expenses recorded in 6500-0050 Unclassified to various cost categories such as Youth (6500-0850), Adult (6500-0750) and Dislocated Worker (6500-0800) within those grants. Since OET uses the "roll-up expenditure report" as supporting documentation for expenses reported by cost category on the DOL Quarterly Reports and not the amounts reported in MARS by cost category, we found completing the JVs to reclassify the expenses within each grant by cost category to be a time-consuming and unnecessary process compared to the benefit received (none). OET does agree that the drawdowns posted to 6500-0050 by grant in MARS should be reconciled on a quarterly basis to the expenditures reported on the "roll-up expenditure report" and must agree in total at the time the grant is closed-out.*

**Auditor's Reply**

The expenditures by reporting category in MARS are incorrect. Good internal controls dictate that MARS should agree to the agency's records. If the MARS accounting structure is not appropriately tracking expenditures, the agency should review the accounting structure for the WIA programs and make changes accordingly. Until the accounting system is changed, a JV should be done to ensure MARS and the agency's records agree. Other agencies or personnel within CWD may use the MARS information.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-13: The Department For Training And ReEmployment Should Improve The Policy And Procedure Manual For The Financial Reporting Process And Implement A Policy For Secondary Review Of Financial Status Reports**

State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.258 – WIA Adult Grants

CFDA 17.259 – WIA Youth Grants

CFDA 17.260 – WIA Dislocated Workers

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

During our review of internal controls over Reporting for WIA, administered by the DTR, we noted the following:

- The Workforce Investment Act Statewide Rapid Response March 2004 quarterly financial report (Project 27204DWZ) Federal unliquidated obligation amount was \$465,359. However, the supporting documentation indicated \$466,359, a \$1,000 difference.
- Two (2) instances of miscoded expenditures were noted. JVs had been done to correct both errors. In the first instance, \$914 (project 27302 on 2002-13 spreadsheet) was coded to the adult program when it should have been coded to Rapid Response. In the second instance, \$342 (project 27402 on 2002-13 spreadsheet) was coded to the adult program when it should have been coded to rapid response. These miscodings were discovered by the agency when creating the spreadsheet (using MARS data) used as part of the Federal Report preparation process. Miscoding of expenditures was an issue in the FY 03 audit. The auditor recommended a policy and procedure manual be created. DTR created the manual as a result of the FY 03 finding.

The same employee is responsible for both preparing and submitting the quarterly financial reports. No other employees reviewed the data prior to or after submission.

Errors could occur in the calculations used in the Quarterly Financial Status Reports submitted to the federal government, such as the \$1,000 error noted above. The error was corrected on the subsequent report for the April through June 2004 quarter.

Miscoding of expenditures or inconsistent categorization of expenditures for grant reporting purposes may occur when there are numerous accounts.

Proper internal controls dictate that the accurate and reliable Reports be submitted to the Federal government.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-13: The Department For Training And ReEmployment Should Improve The Policy And Procedure Manual For The Financial Reporting Process And Implement A Policy For Secondary Review Of Financial Status Reports (Continued)**

Also, good internal controls dictate that expenditures should be properly coded and a system in place to identify miscoding timely.

**Recommendation**

We recommend:

- A second employee review and verify all data used to prepare and submit the Quarterly Financial Status Reports. The reviewer should sign off on the documentation reviewed as evidence of the review.
- DTR consider refresher training or other communication with employees responsible for inputting WIA expenditure codes into MARS.
- DTR improve the policy and procedure manual by incorporating information on the Federal report preparation process.

**Management Response and Corrective Action Plan**

*OET agrees with the finding and will implement the Auditor's recommendations above and revise our Policies and Procedures accordingly.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-14: The Department For Training And ReEmployment Should Review Current Policies To Ensure Timesheet Errors Will Be Prevented**

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State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.258 – WIA Adult Grants

CFDA 17.259 – WIA Youth Grants

CFDA 17.260 – WIA Dislocated Workers

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed and Allowable Costs/Cost Principles

Amount of Questioned Costs: None

We compared DTR employee timesheets to the MARS Payroll Distribution Charges Report (153) for employees charging time to WIA grants. WIA employees charge time to different WIA grants, depending on which WIA grant they are working on, using an accounting string, including a project number. Any leave time is prorated among grants based on which grant the employee worked on most during the pay period.

We noted the following:

- For one employee, the project numbers charged on the timesheets did not agree to the project number shown on Report 153. This error affected other DTR employees for this pay period also.
- For another employee, the auditor calculated distribution of time to the project numbers (based on timesheet information) did not agree to Report 153 distribution charges.

If time charges are not properly distributed in the accounting system, the amount charged to each Federal grant could be inaccurate. This could cause the calculation of the administrative expenditure limits to be inaccurate. Also, the administrative expenditure information submitted to the Federal government on the Federal Reports could be incorrect.

For the project numbers charged on the timesheets, which did not agree to the project number shown on Report 153 problem, a data entry error is the likely cause. At this time, no explanation for the difference in the auditor's calculation and Report 153 distribution of time charges has been provided. DTR has not been able to determine if these errors were corrected properly.

Part 4 of the Compliance Supplement for the WIA Cluster section G 3.A states, "A State may reserve up to 15% of the amounts allotted for Adult, Dislocated Worker, and Youth Activities." The next paragraph states, "A State may spend up to 5% of the amount allotted for the State's administrative costs." If the payroll charges are not distributed correctly, these limits could be miscalculated for several grants.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-14: The Department For Training And ReEmployment Should Review Current Policies To Ensure Timesheet Errors Will Be Prevented (Continued)**

The Reporting section in the Compliance Supplement, part 4, requires a *Statewide Activities-Financial Status Report* on the State Reserve activities. If the payroll charges are not distributed correctly, the limits could be miscalculated and the Federal report submitted with incorrect information.

**Recommendation**

We recommend DTR determine if and when these errors were corrected and determine if there is an impact on the administrative limits and federal reports submitted.

We understand that procedures have changed for FY 05. A designated employee in the Division of Workforce Services enters timesheets. The Budget & Support Branch of OET, reviews the 153 report for budget codes that would have defaulted during the payroll process and corrects errors that default when timesheets are extracted. The payroll staff is only responsible for the pay of employees based on hours reported from the timesheet. We recommend that supervisors be informed of the type of errors that occurred in FY 04 so they will know what to look for when reviewing Report 153.

**Management Response and Corrective Action Plan**

*OET agrees with the finding and will implement the Auditor's recommendations above. Please note that OET has no control over the distribution process for leave hours, as this is an automated function of the payroll system.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-15: The Department For Training And ReEmployment Should Ensure Expenditures Are Within The Period Of Availability**

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State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.258 – WIA Adult Grants

CFDA 17.259 – WIA Youth Grants

CFDA 17.260 – WIA Dislocated Workers

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Period of Availability

Amount of Questioned Costs: None

We reviewed expenditure documents for WIA grants awarded in FY 01 (27001, 27101, 27201, 27301, and 27401). The period of availability expired on June 30, 2003 for these grants. This means that no expenditures incurred after June 30, 2003 should be paid from these grants. During our review, we noted

- Two (2) expenditures paid from project number 27101 were for basic cable services incurred in July 2003 and August 2003. This is after the June 30, 2003 period of availability.
- Three (3) expenditures for project number 27101 and two expenditures for project number 27401 were for cell phone bills. The cell phone bills had charges for calls both before and after June 30, 2003. The calls made after June 30 should not be charged to these grants.
- The documentation for seven drawdowns does not indicate when the expenses were incurred. Local Workforce Investment Areas (LWIAs) drawdown money each week using a DTR 105, "Request for Transfer of Funds." The DTR 105 contains drawdown requests for multiple grant numbers. For example, the DTR 105 for Greater Louisville for the week ended 7/25/03 listed 24 different grants and cash drawdowns were requested from six of the grants, including 2740100Z, which was expired. No documentation was attached indicating the expenditure for the expired grant was incurred prior to June 30, 2003.

We also noted JVC00076060 was processed May 7, 2004 and JVC00079326 was processed July 9, 2004. The grant was closed June 30, 2003 and the final federal report submitted September 2003. The supporting documentation provided for these JVCs was not sufficient to determine the purpose of the JVs. Also, we noted that if JVs change information submitted on the final federal report, there are no procedures in place to submit an adjusted final report or inform the federal government of the change.

The agency is not in compliance with Federal period of availability requirements for the two cable bill expenditures (totaling \$54) and expenditures related to calls made after June 30 (totaling \$120).

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-15: The Department For Training And ReEmployment Should Ensure Expenditures Are Within The Period Of Availability (Continued)**

We could not determine if the agency complied with period of availability requirements for the seven drawdowns due to lack of supporting documentation.

We cannot determine the appropriateness of the JVCs if adequate supporting documentation is not maintained. If federal reports are not adjusted, the federal government does not have accurate grant information.

The Part 4 of Compliance Supplement for WIA states, “Funds allotted to a State for any program year are available for expenditure by the State during the program year and the two succeeding program years . . .”

Good internal controls dictate DTR ensure the LWIAs are meeting period of availability requirements.

Also, good internal controls dictate that adequate supporting documentation be maintained for accounting transactions and procedures exist to deal with accounting adjustments that result in changes to the final report submitted to DOL.

**Recommendation**

We recommend:

- DTR implement procedures to ensure expenditures are not paid with funds that are no longer available.
- DTR implement procedures to ensure period of availability requirements are met prior to providing LWIAs with funds after the period of availability. For instance, DTR could request additional supporting documentation be submitted with drawdown requests if funds are being requested outside the period of availability.
- DTR maintain adequate supporting documentation for journal vouchers.
- DTR develop a policy to address adjustments that change the final federal reports submitted to DOL.

**Management Response and Corrective Action Plan**

*OET agrees with the findings stated above, except the one regarding the LWIA drawdowns, and will implement the Auditor’s recommendations and revise our Policies and Procedures accordingly.*

*OET disagrees with the finding regarding the LWIA drawdowns being segregated by fiscal year activity. The DTR 105 is used by the LWIAs to simply draw cash from the State and is not used to report expenditures in any way, shape or form. OET uses the*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-15: The Department For Training And ReEmployment Should Ensure Expenditures Are Within The Period Of Availability (Continued)****Management Response and Corrective Action Plan**

*DTR-38, Monthly Expenditure Report filed by each LWIA to accumulate expenditures on a statewide basis and eventually report to DOL quarterly. In the Louisville example provided above, cash was drawn against grant 2740100Z using the DTR-105 after the grant's June 2003 expiration date to cover expenses incurred and reported via the DTR-38 for services provided prior to June 2003. The finding also stated ... "No documentation was attached (to the DTR-105) indicating the expenditure for the expired grant was incurred prior to June 30, 2003". Again, the DTR-105 is used to request cash for a grant and has no relationship to the amount of expenditures reported for that grant. OET does not see any benefit being derived from this recommendation that would assist us in making the determination of whether expenses are being charged to a grant after its expiration date.*

*Although not recommended by the auditor as corrective action, OET will remove the cell phone and cable bills, totaling \$174.37, from the expired grant's administrative costs and replace them with administrative costs incurred by another grant within the original grant's period of availability. This journal voucher will have a zero effect on the DOL quarterly reports filed for both grants and will not require any quarterly reports' restatement.*

**Auditor's Reply**

Management did not previously communicate that the DTR-38 forms are used to determine if expenses are charged to a grant after its expiration date. All fieldwork has been completed and the DTR-38s could not be tested for adequacy. The FY05 auditor will follow up on this finding.

## FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Other Matters Relating to Internal Controls and/or Instances of Noncompliance*

#### **FINDING 04-CWD-16: The Department For Training And ReEmployment Should Continue To Improve Subrecipient Monitoring Procedures**

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State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.258 – WIA Adult Grants

CFDA 17.259 – WIA Youth Grants

CFDA 17.260 – WIA Dislocated Workers

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During the review of subrecipient audits for WIA grant (CFDAs 17.258, 17.259, and 17.260), we noted the following:

- Final Determinations- There was no final determination for the Bluegrass LWIA. The final determination was not issued within 30 days of LWIA's response for Bluegrass and Tenco.
- Reconciliations-The audit report reconciliation problems were not resolved within 180 days of receiving the audit for Bluegrass and Northern LWIAs.
- Audit Report Review Checklist-We could not determine if DTR's technical review using the SCX-18 Single Audit Reports Checklist form was complete because the "NA" column was not marked.
- Audit Log-The audit log was not updated as initial and final determinations were issued.

The effects of the weaknesses above include:

- If final determinations are not issued timely, audit findings may go unresolved for long periods of time.
- Agency records were not reconciled to DTR records timely.
- A SCX-18 Single Audit Reports Checklist is filled out for each LWIA audit reviewed. The form has a questions and two answer columns, Yes and NA. The reviewer indicated yes beside some questions, but other questions were left blank. This makes it difficult to tell if the reviewer completed the review.
- DTR's ability to monitor the progress of the audit reports and those actions taken as a result of audit findings is less if the audit log is not up to date.

The reasons the weaknesses should be addressed include:

- Final determinations should be issued within 30 days of the conclusion of the informal resolution period.
- Section 10-Audit Resolution of the WIA Handbook states, "Insofar as possible, the resolution of audit findings shall be completed within 180 days of the date the final audit report is received by DTR."
- Good internal controls dictate documentation of audit report reviews be complete.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-16: The Department For Training And ReEmployment Should Continue To Improve Subrecipient Monitoring Procedures (Continued)**

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- Good internal controls dictate that DTR monitor the progress of audit reports and the actions taken as a result of audit findings.

**Recommendation**

We recommend DTR:

- Continue to improve monitoring procedures to ensure compliance with WIA regulations, OMB Circular A-133, and DTR guidelines regarding audit resolutions of subrecipients.
- Implement procedures to ensure timely management decisions on audit and monitoring findings and require subrecipients to initiate corrective action on deficiencies identified in audits and subrecipient monitoring within six (6) months after receipt of the audit report.
- Complete the NA column of the SCX-18 Single Audit Reports Checklist.
- Keep the audit log updated. All appropriate personnel should have access to the updated audit log.

**Management Response and Corrective Action Plan**

***Final Determinations:*** DWS agrees and is in the process of issuing a Final Determination for Bluegrass. A Final Determination for TENCO was issued within the 180-day limit. However, the Final Determination for Northern Kentucky was not issued within the 180-day limit due to the delay by the local for requested information by DWS. The Final Determination was issued, however. DWS will endeavor in the future to have all final determination issued within the 180-day limit.

***Reconciliations:*** DWS admits the audit reconciliation problems with Northern and Bluegrass were not solved with 180 days of receiving the audit from the local Workforce Areas. However, the delay in resolving the problems was due to lack of a timely response by the Workforce areas, not DWS. The reconciliation request to Northern was made the day after receipt of the audit; followed by numerous reminders and requests for a reply. The same is true concerning Bluegrass: a request for reconciliation was made the day after receipt of the audit, December 12, 2003, followed by requests for the reconciliation in January and April.

***Audit Report Review Checklist:*** Initial training in use of the SCX-18 Single Audit Report Checklist indicated the "NA" column did not need to be marked, only the "Yes" column. The "NA" column will be utilized with audits in the future.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

**FINDING 04-CWD-16: The Department For Training And ReEmployment Should Continue To Improve Subrecipient Monitoring Procedures (Continued)**

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**Management Response and Corrective Action Plan**

***Audit Log:*** *The log was updated as activity occurred. However one activity, “Letter Sent to Subrecipient Upon Review,” should have been described as “Initial Determination.” The nomenclature will be changed for reporting and record-keeping in the future.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-17: The Department For Training And ReEmployment Should Develop Desk Review Procedures**

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State Agency: Cabinet For Workforce Development

Federal Program: CFDA 17.258 – WIA Adult Grants

CFDA 17.259 – WIA Youth Grants

CFDA 17.260 – WIA Dislocated Workers

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

A NEG, which is part of CFDA 17.260, was awarded to the Commonwealth for the July 2003 to December 2003 period and was administered by the Department for Training and ReEmployment (DTR). During our testing of the NEG, we noted the following:

- NEGs require a minimum of two (2) site visits for each NEG project, one within 90 days after the grant award and a second at the midpoint of the grant or six months after the project begins to enroll participants. Due to the short duration of the grant, DTR requested and received Federal approval to waive this requirement. In the letter granting the waiver, the DOL recommended DTR conduct quarterly desk reviews. DTR was not able to provide documentation to show that desk reviews were performed.
- Under NEG, Western Kentucky University billed the state twice for an individual's books (P1001103449) and the state paid the bill both times. The state was given a partial refund of \$282, but cannot determine if the remaining \$60 was refunded and if so to which participant the refund was applied. This is because WKU has a pool set up for participants and they do not track all expenses directly.

We cannot determine if the desk reviews were performed or adequate. Since there was no checklist, we do not know what was done as part of the desk reviews.

We cannot determine whether or not the state is due \$60 from Western Kentucky University.

The DOL approved the request to waive the monitoring requirement with conditions. The conditions included that DTR perform quarterly desk reviews.

Good internal controls dictate expenditures should be supported by adequate documentation. Without adequate documentation, we cannot to determine if expenditures are allowable and appropriately charged.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CWD-17: The Department For Training And ReEmployment Should Develop Desk Review Procedures (Continued)**

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**Recommendation**

We recommend DTR develop written procedures regarding

- The performance of desk reviews,
- Maintenance of desk review documentation, and
- An example checklist.

If DOL requests desk reviews in the future, DTR would be able to apply these procedures.

In addition, we recommend DES reevaluate the method used to document refunds due to overpayments.

**Management Response and Corrective Action Plan**

*OET agrees with the findings and will develop the written policies regarding desk reviews as recommended by the auditor. OET will also reevaluate our method used to document refunds due to overpayments and pursue the collection of the \$60 from Western Kentucky University.*

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 03	03-CWD-1	The Division Of Unemployment Insurance Should Perform Reconciliation Of Tax Payments Received By Kentucky Revenue Cabinet To Its Mainframe Program	NA	0	Resolved during FY 04.
FY 03	03-CWD-3	The Cabinet For Workforce Development Should Strengthen The Security Of Administrator Accounts	NA	0	Resolved during FY 04.
FY 03	03-CWD-10	The Department For Training And ReEmployment Should Implement Controls Over Monitoring Procedures To Ensure Compliance	NA	0	Resolved during FY 04.
FY 02	02-CWD-4	The Cabinet For Workforce Development Should Strengthen The Security Of Administrator Accounts	NA	0	Resolved during FY 04.
FY 02	02-CWD-12	The Department For Training And ReEmployment Should Implement Additional Procedures To Ensure Subrecipient Findings Are Followed Up On In A Timely Manner	17.255 17.258 17.259 17.260	0	Resolved during FY 04.
FY 01	01-CWD-3	The Cabinet For Workforce Development Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers	NA	0	Resolved during FY 04.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 03	03-CWD-11	The Department For Training And ReEmployment Should Implement Formal Procedures To Ensure Accurate Federal Reporting	NA	0	See 04-CWD-13.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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**Reportable Conditions**

*(3) Corrective action taken is significantly different from corrective action previously reported:*

FY 03	03-CWD-2	The Division Of Unemployment Insurance Should Enhance Controls To Ensure Proper Reporting Of The Closing Package	NA	0	See 04-CWD-1.
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*(4) Audit finding no longer valid or does not warrant further action:*

No findings to report in this category.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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**Material Weaknesses/Noncompliances**

*(1) Audit findings that have been fully corrected:*

No findings to report in this category.

*(2) Audit findings not corrected or partially corrected:*

FY 02	02-CWD-2	The Division Of Unemployment Insurance Should Have A Computer System In Place To Adequately Maintain Employer Accounts	NA	0	Due to improvements, this finding was downgraded to a reportable condition in FY 03. See 04-CWD-1.
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*(3) Corrective action taken is significantly different from corrective action previously reported:*

There were no findings to report in this category.

*(4) Audit finding no longer valid:*

No findings to report in this category.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 03	03-CWD-5	The Division Of Unemployment Insurance Should Implement Controls To Ensure That All Transactions Have Proper Authorization And Adequate Documentation	NA	0	Resolved during FY 04.
FY 03	03-CWD-8	The Cabinet For Workforce Development Should Ensure All User Accounts On Its Agency Machines Are Necessary	NA	0	Resolved during FY 04.
FY 03	03-CWD-12	The Division Of Unemployment Insurance Should Implement Procedures To Ensure Timely Submission Of The Internal Revenue Service 940 Federal Unemployment Tax Administration Certification	NA	0	Resolved during FY 04.
FY 02	02-CWD-5	The Cabinet For Workforce Development Should Ensure All User Accounts On Its Agency Servers Are Necessary	NA	0	Resolved during FY 04.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 03	03-CWD-4	The Division Of Unemployment Insurance Should Strengthen Controls Over The Preparation Of Accounting Estimates	NA	0	See 04-CWD-2.
FY 03	03-CWD-6	The Cabinet For Workforce Development Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	See 04-CWD-4.
FY 03	03-CWD-7	The Cabinet For Workforce Development Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	See 04-CWD-5.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u></b>					
FY 03	03-CWD-9	The Cabinet For Workforce Development Password Policy Should Be Consistently Applied To All Local Area Network Machines	NA	0	See 04-CWD-6.
FY 02	02-CWD-6	The Cabinet For Workforce Development Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	See 04-CWD-4.
FY 02	02-CWD-7	The Cabinet For Workforce Development Should Ensure That All Open Ports On Agency Servers Have A Business-Related Purpose	NA	0	See 04-CWD-5.
FY 02	02-CWD-8	The Cabinet For Workforce Development Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 04-CWD-6.

***(3) Corrective action taken is significantly different from corrective action previously reported:***

No findings to report in this category.

***(4) Audit finding no longer valid:***

No findings to report in this category.

